

Message Text

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PAGE 01 OTTAWA 01921 221901Z

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FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 6520

C O N F I D E N T I A L OTTAWA 1921

LIMDIS

E.O. 11652: GDS

TAGS: ENRG, CA

SUBJECT: NEB REPORT ON NATURAL GAS SUPPLY

REF: OTTAWA 1896

1. SUMMARY. ON MAY 21 UNDER SECRETARY FOR EXTERNAL AFFAIRS BASIL ROBINSON GAVE AMBASSADOR SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS OF NEB REPORT ON NATURAL GAS SUPPLY WHICH IS NOW UNDER CONSIDERATION WITHIN GOC. ROBINSON SAID REPORT NOT EXPECTED TO BE MADE PUBLIC UNTIL MID-JUNE. HE EMPHASIZED NEED TO AVOID LEAKS UNTIL THAT TIME AND URGED THAT USG RESPECT CONFIDENTIALITY OF DISCUSSION. HE ASSURED AMBASSADOR THAT GOC INTENDS TO GIVE USG FULL OPPORTUNITY FOR CONSULTATION BEFORE GOC TAKES ANY DECISIONS THAT WILL AFFECT NATURAL GAS EXPORT LEVELS. END SUMMARY.

2. ROBINSON OPENED DISCUSSION BY SAYING HE HAD INVITED AMBASSADOR IN TO GIVE HIM SUMMARY OF (1) FINDINGS AND RECOMMENDATIONS OF NEB REPORT ON NATURAL GAS SUPPLY, (2) STATE OF PLAY WITH RESPECT TO GOC CONSIDERATION OF REPORT, AND (3) INDICATION OF GOC INTENTIONS WITH RESPECT TO USG DESIRE FOR CONSULTATIONS. ROBINSON SAID THAT HIS SUMMARY WOULD DEAL WITH THOSE ASPECTS OF NEB REPORT WHICH HAVE SOME AFFECT ON EXPORT SITUATION AND
CONFIDENTIAL

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PAGE 02 OTTAWA 01921 221901Z

NOT WITH OTHER ASPECTS WHICH ARE STRICTLY DOMESTIC.

HE SAID HE WAS NOT AUTHORIZED TO GIVE AMBASSADOR A
PIECE OF PAPER BUT WOULD MAKE ORAL PRESENTATION SLOWLY
SO THAT ECON COUNSELOR WHO WAS ALSO PRESENT COULD TAKE
NOTES. FOLLOWING IS ESSENTIALLY VERBATIM ACCOUNT OF
WHAT ROBINSON SAID:

A. NEB FINDINGS ON NATURAL GAS SUPPLY SITUATION:

- (1) RATE OF DISCOVERY OF NEW GAS RESERVES IN
CONVENTIAL AREAS IS SERIOUSLY DECLINING AND
PRODUCIBILITY OF EXISTING FIELDS HAS WORSENERD.
- (2) BECAUSE NATURAL GAS IS UNDER-PRICED THERE HAVE BEEN
INSUFFICIENT INCENTIVES FOR PRODUCERS TO FIND NEW
SOURCES.
- (3) RATE OF GAS CONSUMPTION WITHIN CANADA HAS BEEN
RISING QUICKLY.
- (4) UNDER PRESENT CONDITIONS A SHORTFALL, IN ADDITION
TO THE PRODUCIBILITY PROBLEM ALREADY EXISTING IN
BRITISH COLUMBIA, CAN BE ANTICIPATED BY 1979 IN MEETING
GROWING DOMESTIC DEMAND AND EXISTING EXPORT CONTRACTS
AND BY 1984 PRODUCTION FROM PRESENTLY PRODUCING
SOURCES MAY BE INSUFFICIENT TO MEET CANADIAN REQUIREMENTS
EVEN WITHOUT EXPORTS.
- (5) FRONTIER GAS PRODUCTION MAY BEGIN IN MACKENZIE
DELTA AND BEAUFORT SEA IN 1980 AND IN EASTERN ARCTIC
ISLANDS BY 1984. THESE ARE INDUSTRY ESTIMATES AND MAY
BE SOMEWHAT OPTIMISTIC.
- (6) UNTIL THERE IS LARGE SCALE PRODUCTION FROM FRONTIER
AREAS, I.E., AT LEAST THE NEXT TEN YEARS, THERE WILL BE
SERIOUS SUPPLY PROBLEMS WHICH WILL INEVITABLY
AFFECT BOTH DOMESTIC AND EXPORT MARKETS.

B. NEB RECOMMENDATIONS:

- (1) CUTTING OFF ALL CANADIAN EXPORTS AT ONCE WOULD ONLY
MARGINALLY EXTEND CANADA'S SELF-SUFFICIENCY.
 - (2) PRIORITY SHOULD BE GIVEN TO CANADIAN DEMAND.
 - (3) EXISTING EXPORT LICENSES SHOULD BE AMENDED TO
MAKE ENTITLEMENT CONDITIONAL ON CANADIAN REQUIREMENTS
BEING MET.
 - (4) ALL LICENSES SHOULD BE MADE CUMULATIVE SO THAT
SHORTFALLS NOW COULD BE MADE UP IN FUTURE DELIVERIES.
- CONFIDENTIAL

CONFIDENTIAL

PAGE 03 OTTAWA 01921 221901Z

- (5) IF GAS FROM ARCTIC DOES NOT COME ON STREAM, GOC
SHOULD SEEK ARRANGEMENT WITH U.S. UNDER WHICH FURTHER
CANADIAN EXPORTS UNDER EXISTING LICENSES WOULD BE
REPAYABLE IN GAS MADE AVAILABLE LATER FROM U.S.
SOURCES.
- (6) ADDITIONAL MEASURES MAY BE REQUIRED IF THE
SUPPLY AND DELIVERABILITY SITUATION DOES NOT NOTABLY
IMPROVE.

C. CURRENT STATE OF PLAY:

- (1) PUBLICATION OF NEB REPORT WILL LIKELY BE DELAYED UNTIL MID-JUNE. ROBINSON SAID HE USED WORD "LIKELY" BECAUSE IT IS NOT POSSIBLE TO GUARANTEE AGAINST AN EARLIER LEAK BUT GOC IS VERY HOPEFUL THERE WILL BE NO LEAK. HE SAID FOREGOING INFORMATION WAS BEING GIVEN TO USG ON CONFIDENTIAL BASIS IN LINE WITH OUR AGREEMENT TO CONSULT TOGETHER WHEN BILATERAL PROBLEMS ARISE. HE HAD BEEN INSTRUCTED TO UNDERLINE THE IMPORTANCE GOC ATTACHES TO KEEPING INFORMATION CONFIDENTIAL UNTIL REPORT IS PUBLISHED.
- (2) GOC INTENDS TO GIVE USG A COPY OF NEB REPORT BEFORE PUBLICATION.
- (3) GOC HAS TAKEN NO DECISION ON HOW TO DEAL WITH NATURAL GAS SHORTAGE PROBLEM. ROBINSON EMPHASIZED THAT NEB'S VIEWS ARE NOT NECESSARILY THOSE OF GOC.

D. CONSULTATIONS:

- (1) GOC ACCEPTS USG REQUEST FOR CONSULTATION ON NATURAL GAS SUPPLY SITUATION BEFORE DECISIONS ARE TAKEN THAT WOULD AFFECT EXPORT LEVELS. GOC RECOGNIZES THAT USG INTERESTS ARE AFFECTED DIRECTLY BY SITUATION REPORTED BY NEB AND GOC DECISIONS WILL TAKE THESE INTERESTS INTO ACCOUNT.
- (2) AFTER GOC HAS HAD OPPORTUNITY FOR FURTHER INTERNAL CONSIDERATION OF NEB REPORT, IT WILL BE IN TOUCH WITH USG TO PROPOSE A MEETING WHICH WILL ALLOW FULL CONSIDERATION OF CONSTRAINTS IMPOSED BY GAS SUPPLY SITUATION.
- (3) IT IS LIKELY THAT IN THE INTERIM (BEFORE INTERNAL CONSIDERATION IS COMPLETED AND BILATERAL MEETING IS CONFIDENTIAL

CONFIDENTIAL

PAGE 04 OTTAWA 01921 221901Z

PROPOSED) NEB REPORT WILL BE PUBLISHED. THIS PUBLICATION WILL NOT INTERFERE WITH PROCESS OF CONSULTATION.

3. WHEN PRESSED ON LAST POINT, ROBINSON CONFIRMED THAT GOC ENVISAGES BILATERAL CONSULTATION TAKING PLACE AFTER PUBLICATION OF NEB REPORT, I.E. SOME TIME AFTER MID-JUNE. HE ACKNOWLEDGED THAT GOC WOULD MAKE A STATEMENT ON NEB REPORT AT TIME OF PUBLICATION BUT THIS STATEMENT WOULD BE IN THE NATURE OF AN INITIAL REACTION RATHER THAN A FINAL CONCLUSION AND WOULD NOT REPEAT NOT PREJUDICE THE OUTCOME OF THE CONSULTATIONS.

4. AMBASSADOR EXPRESSED APPRECIATION FOR INFORMATION WHICH ROBINSON HAD PROVIDED. HE SAID HE WOULD REPORT TO WASHINGTON AND WOULD BE IN TOUCH WITH ROBINSON

AGAIN AFTER RECEIVING WASHINGTON'S REACTION.

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